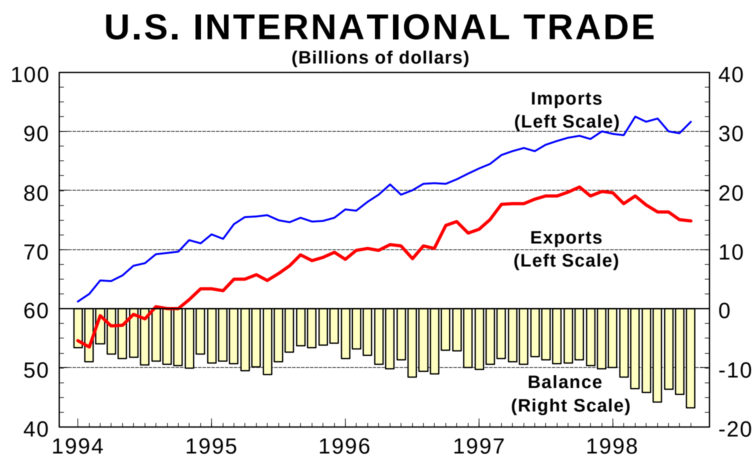
U.S. TRADE IN PERSPECTIVE

U.S. Department of Commerce, International Trade Administration, Trade Development November 1998

Exports Continue to Slip; Trade Deficit Sets Monthly Record

Key Developments: *In August, the U.S. goods and services trade deficit set a new record as exports declined and imports rose sharply. Exports to Asia remain very weak and exports to the Western Hemisphere have slowed. The manufacturing sector is the most adversely affected.*

The U.S. economy remains strong, and, as a result, the level of imports continues to rise. Except for China and Taiwan, countries in Asia are in recession, and this makes it hard to sell goods there. Export markets in Europe are better but still sluggish, while U.S. export growth in the Western Hemisphere has fallen to near zero in recent months.



The dollar is 21 percent higher than in mid-1995, despite a decline in recent weeks. The strong dollar is making exports expensive and imports cheap and is contributing to the worsening trade performance.

1998 Trends: U.S. exports of goods and services have declined since October 1997, ebbing again in August. During the first eight months of 1998, total exports decreased 0.3 percent over the same period a year ago. Imports continued to rise this year, but at a slower pace than in 1997. Declining U.S. exports and rising imports in August resulted in a record monthly U.S. trade deficit of $16.8 billion, compared with $14.5 billion in July.

- August exports were $74.8 billion, $0.3 billion less than July's revised figure. August imports rose $2.0 billion to $91.6 billion. Year to date, import growth has slowed to a 5.2 percent gain over the past year. The slowing is partly the result of lower oil prices.

- The trade deficit thus far this year has worsened to an annual rate of $164.8 billion, compared with $108.8 billion for the same period in 1997. (For all of 1997, the trade deficit was $110.2 billion, averaging $9.2 billion per month.)

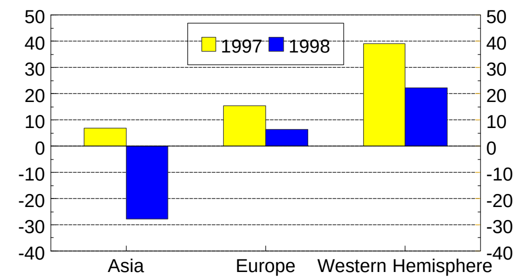
Regional View: Exports Weaken Globally, Imports from Europe Rise

August's figures show continued problems in U.S. trade with Asia. Most of Asia is in recession, limiting U.S. exports. The value of imports from Asia has grown only moderately, but this situation could change in the not too distant future. U.S. exports to the Western Hemisphere have slowed. Meanwhile, imports from Europe continue to be robust.

Although export growth remains concentrated in the Western Hemisphere, the pace has slowed, rising 6.8 percent through August over the same period a year ago. Exports to Asia declined 13.9 percent, while exports to Europe increased 4.4 percent over the same period a year ago.

Dollar Change in Exports by Region

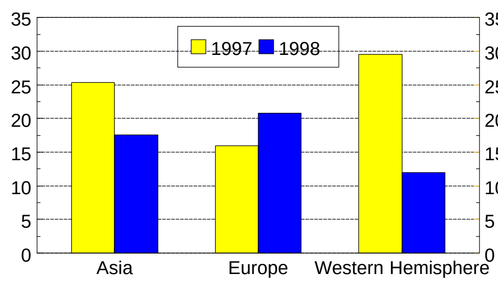
(Billions of dollars*)



*Year to date change from a year ago at an annual rate

Dollar Change in Imports by Region

(Billions of dollars*)



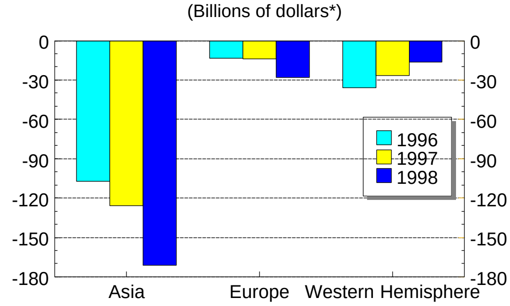
*Year to date change from a year ago at an annual rate

Through August, imports from Asia rose 5.0 percent over the same period a year ago, compared to last year's 8.1 percent. Import growth from the Western Hemisphere has slowed to 3.7 percent due to lower world oil prices. Imports from Europe grew more rapidly at 11.9 percent over this period.

The rise in the merchandise trade deficit is primarily a result of the deterioration in the U.S. trade balance with Asia. In the first eight months of 1998, the trade deficit with Asia totaled $177.2 billion (annual rate), compared with $130.5 billion a year earlier. As a result of lower oil prices, the U.S. trade deficit with the Western Hemisphere improved to $17.8 billion through August of 1998 from $25.3 a year earlier. The trade deficit with Europe worsened to $28.5 billion from $14.6 billion last year.

Trade Balance by Region

(Billions of dollars*)



*Balances are year to date at an annual rate.

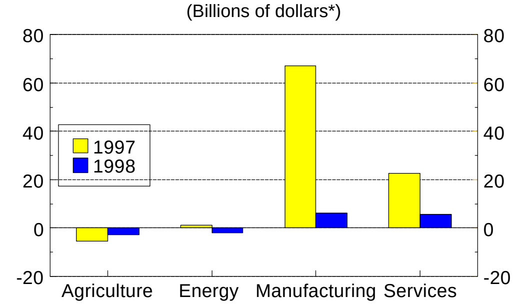
Sectoral View: Goods Exports are Down, Business Services Resist Trend

Goods exports declined again in August. Agricultural and industrial supplies exports have been hit the hardest by falling prices and shrinking global demand. Merchandise imports have slowed but this is due to the lower prices of oil and other commodities. Business services exports are up 7.5 percent from a year ago.

Through August, merchandise exports declined 0.8 percent from a year ago. In manufacturing, consumer goods exports increased 3.1 percent while exports of industrial supplies declined 5.8 percent. Agricultural exports declined 6.1 percent (due to depressed crop prices). Services exports rose 1.1 percent from a year ago, reflecting a 7.5 percent rise in transportation services and a 2.7 percent drop in travel services.

Dollar Change in Exports by Sector

(Billions of dollars*)

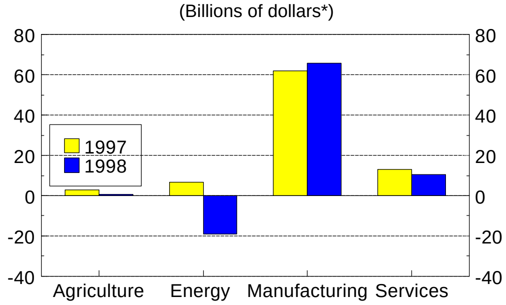


*Year to date change from a year ago at an annual rate

The price of crude petroleum in August was $10.63 per barrel, the lowest since August 1986. Cheap oil has drastically slashed the value of U.S. imports of energy products. In the first eight months of this year, energy imports have fallen 24.5 percent from a year ago. Merchandise imports (including oil) rose 5.1 percent through August. In manufacturing, imports increased 9.2 percent from a year ago, roughly the same pace as in 1997.

Dollar Change in Imports by Sector

(Billions of dollars*)

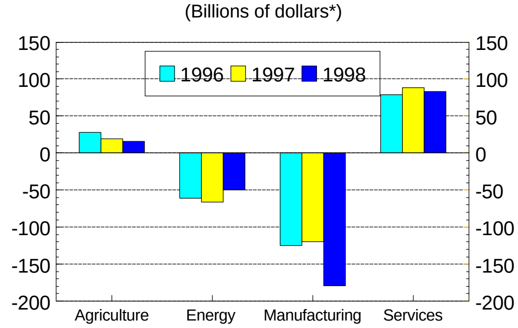


*Year to date change from a year ago at an annual rate

Most of the deterioration in the U.S. trade deficit derives from trade in manufactured goods. Year to date, the manufacturing deficit rose to $186.3 billion (annual rate) from $123.4 billion a year ago. The surplus sectors of agriculture and services continued to worsen. In the first eight months, the surplus in agriculture deteriorated to $15.2 billion from $19.2 billion the previous year. The surplus in services retreated to $81.7 billion compared to $88.6 a year ago. However, in energy products, the U.S. deficit improved to $49.1 billion from $66.2 billion during the same period in 1997.

Trade Balance by Sector

(Billions of dollars*)



*Balances are year to date at an annual rate.

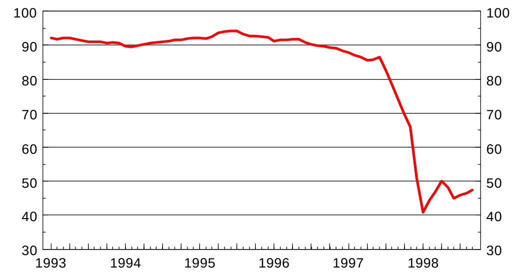
The Asia Factor: U.S. Trade Deficit With the Asian Five Widens Further

The U.S. trade deficit with the Asian Five (Indonesia, Malaysia, the Philippines, South Korea, and Thailand) increased in August due to an increase in imports and a decrease in exports. There has been a dramatic improvement in the Asian Five's trade balances with the world and with the United States, but mostly because of a fall off in their imports. The Asian Five's currencies have been relatively stable since early this year. Year to date, the Asian Five have accounted for 50 percent of the U.S. trade deterioration with Asia, while Japan and China have accounted for 35 percent.

Vis-a-vis the U.S. dollar, the Asian Five's currencies have been relatively stable this year and have risen modestly from their lows in January. In part this may be the result of the sharp improvement in their trade balances.

Asian Five Exchange Rate

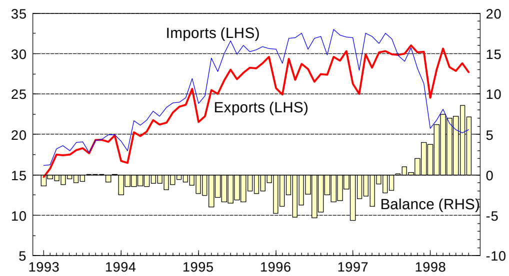
(U.S. dollar per currency)



* Index (Jan 1990=100)

Asian Five* Trade With the World

(Billions of dollars)



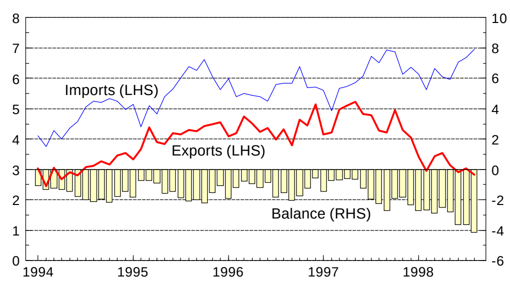
*Indonesia, Malaysia, Philippines, South Korea, Thailand

While the Asian Five's exports to the world have risen slightly, imports are down sharply. Indonesia, South Korea, Malaysia, and Thailand are in recession, while economic growth in the Philippines remains anemic. As such, their ability to buy goods from the world, including the United States, has been constrained.

U.S. merchandise exports to the Asian Five in the first eight months of 1998 have declined 32.7 percent from a year ago, while imports are up 6.7 percent. The U.S. trade deficit totaled $37.5 billion (annual rate) compared with $14.3 billion a year ago.

U.S. Trade With the Asian Five*

(Merchandise, billions of dollars)



*Indonesia, Malaysia, Philippines, South Korea, Thailand

Year to date, the U.S. has trade deficits of about $9 billion (annual rate) with South Korea and Malaysia, $8 billion with Thailand, $7 billion with Indonesia, and $5 billion with the Philippines. U.S. exports to South Korea appear to have stabilized at low levels, while exports to the other countries are still declining.

Prepared by the Office of Trade and Economic Analysis, Trade Development. For more information call 202-482-2056.